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SENSITIVE
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SUBJECT: RUSSIA FLEXES MUSCLES ON UKRAINE NUCLEAR FUEL
SUPPLY

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This cable is unclassified, but sensitive. Please protect accordingly.

¶1. (SBU) An internal Rosatom strategy document, designed to secure the long-term supply of nuclear fuel to Ukraine, was leaked to the Ukrainian press on Monday, October 12. The document, which was provided to econoffs/energy attaches in European posts by industry sources, outlines a broad strategy to coerce the GoU and its nuclear utility (SE NNEGC Energoatom) to enter into a long range supply contracts with TVEL) the Russian state nuclear fuel company in order to maintain Russia's dominance of the market. According to the source, the strategy was drafted by the President of TVEL and the Deputy Director of Atomenergopom, the parent Russian nuclear company, and approved by Alexander M. Lokshin, the Deputy Director General of Rosatom on July 9, 2009.

¶2. (SBU) The strategy intends to shut Westinghouse out of the supply market in Ukraine. Westinghouse has a contract to supply nuclear fuel to three units at the South Ukraine Nuclear Power Plant from 2011 to 2015; Ukraine's remaining twelve units are supplied by TVEL. (Note: Westinghouse's supply contract was the result of a DoE-managed, \$80 million FREEDOM Support Act project to enable Ukraine to diversify its sources of nuclear fuel supply. End note.) Since October 2008, Westinghouse has been also negotiating with the GoU to build a nuclear fuel assembly plant in Ukraine, which would increase its ability to supply fuel by 2015. Thus, according to the paper, "2015 is a critical (year) for Rosatom."

¶3. (U) The objective of the strategy is to strengthen Rosatom's share of the Ukrainian and European markets by:
--forcing Westinghouse out of Ukraine;
--preventing Ukraine from securing fuel reserves by limiting deliveries in 2010;
--securing an agreement for a Russian fuel assembly facility;
and
--securing a long-term fuel supply contract through 2020.
To do so, the paper recommends TVEL withdraw from the supply negotiations while pressure is levied on political, economic, and public diplomacy fronts.

¶4. (U) The paper contends that President Yushchenko's calls for diversification of fuel supplies, which are currently monopolized by Russian fuel suppliers, contradict the spirit of the Russia-Ukraine economic cooperation protocol executed earlier this year by the two prime ministers. They also

argue that GoU efforts to secure short-term contract extensions through 2015, rather than agreeing to a long-term supply contract through 2020, (and linked to the construction of a fuel assembly facility), constitute a breach of the protocol. The strategy calls for Putin to notify Tymoshenko that this breach "may result in the cancellation of fuel supply in 2011," as well as a delay in the construction of the fuel assembly facility. As Westinghouse does not have the capacity to increase fuel supply before 2015, this would cripple Ukraine's nuclear power capacity. (Note: Ukraine faced similar threats in March 2008 before signing the contract with Westinghouse. End Note.)

¶15. (U) The paper recommends other options for "creating zones of pressure." One is to choose the Czech Republic as the final site for the fuel assembly facility. This would leave Ukraine dependant on external sources for fuel assembly and boost Russia's chances of winning the Czech contract for construction of five nuclear power plants. (Note: Westinghouse is also a bidder on the Czech contract. End note.) Another proposal is a joint venture with Westinghouse on fuel fabrication if Westinghouse "quits the Ukraine nuclear fuel market." In the alternative, the Russian strategy proposes creating alliances with GE and/or Siemens to threaten Westinghouse's U.S. market share. It also suggests exploitation of Atomenergoprom's relationship with the U.S. Enrichment Corporation (USEC) to pressure Westinghouse. (Note: USEC purchases reprocessed weapons-grade uranium from Russia for civilian nuclear power generation. End note.)

¶16. (U) If Ukraine continues to seek short-term supply contracts through 2015, the paper recommends a TVEL issue a "draft contract on the toughest conditions for 2010." One condition would require Ukraine to pay for supplies in full 150 days before shipment which would inhibit Ukraine's ability to maintain a strategic reserve. Another would be the refusal to purchase uranium from Ukraine for conversion

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and enrichment. This would significantly increase the cost of fuel. The paper also proposes a public relations campaign to discredit the GoU in Ukrainian, Russian and foreign media.

¶17. (SBU) The paper warns that if Westinghouse gains a foothold in Ukraine, it will have a "springboard" into the European market. This could result in "considerable losses" for the Russian nuclear industry. According to the source, the President of Ukraine's Energoatom said the paper is consistent with Russia's actions over the past few months.

¶18. (SBU) Comment: The strategy paper reflects concerns raised by industry reps and Ukrainian diplomats the past few months and is consistent with Russia's efforts to dominate the gas supply market in Europe. In this regard, Ukrainian diplomats fear that Russia might threaten future gas supplies as additional leverage on the nuclear fuel contracts. End comment.

¶19. (U) The Ukraine news article can be accessed at <http://www.zn.ua/2000/2229/67446/>. For an unofficial transcription of the report, contact Louis Bono at BonoLL@state.gov.

¶10. (U) This cable was cleared with Embassies Kyiv and Sofia.

Murray

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